CITY OF
SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Lee Price, MMC
City Clerk

SUBJECT: **AUDIT OF PENISIONABLE
EARNINGS AND TIME
REPORTING**

DATE: 01-06-10

RECOMMENDATION

As recommended by the Public Safety, Finance and Strategic Support Committee on December 17, 2009 and outlined in the attached memo previous submitted to the Public Safety, Finance and Strategic Support Committee, accept the Audit of Pensionable Earnings and Time Reporting.
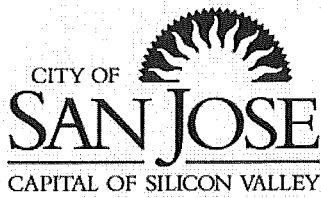
CITY OF

SAN JOSE

CAPITAL OF SILICON VALLEY

Office of the City Auditor

Report to the City Council
City of San José

AUDIT OF PENSIONABLE EARNINGS AND TIME REPORTING

Errors Resulted in Higher Pensions

Time Reporting Codes Are Unclear and Duplicative

Some Pensioners Benefit from the City's Definition of Earnable Income and Highest Salary

Report 09-10

December 2009

December 9, 2009

Honorable Mayor and Members
  of the City Council
200 East Santa Clara Street
San Jose, CA 95113

Transmitted herewith is the report *Audit of Pensionable Earnings and Time Reporting*. This report is in accordance with City Charter Section 805. An Executive Summary is presented on the blue pages in the front of this report. The City Administration's response is shown on the yellow pages before Appendix A.

I will present this report at the following meetings:

- December 17, 2009 meeting of the *Public Safety, Finance & Strategic Support Committee*
- January 7, 2010 meeting of the Police and Fire Retirement Board
- January 14, 2010 meeting of the Federated Retirement Board

If you need any additional information, please let me know. The City Auditor's staff members who participated in the preparation of this report are Steve Hendrickson, Jazmin LeBlanc, and Diana Chavez.
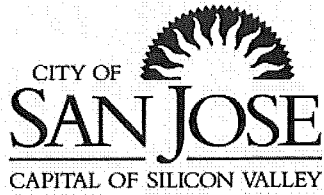
Respectfully submitted,

Sharon W. Erickson
City Auditor

finaltr
SE:bh

cc: Russell Crosby   Heather Ruiz   Veronica Niebla   Patricia Deignan
     Scott Johnson   Jeanne Groen   Debra Figone   Norm Sato
     Mike Ryder   Alex Gurza   Deanna Santana   Ed Shikada
     Dan Kadomoto   Aracely Rodriguez   Mollie Dent   Jennifer Maguire
     Fred Tran   Donna Busse   George Rios   Richard Doyle
     Mark Danaj

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SAN JOSE
CAPITAL OF SILICON VALLEY

Office of the City Auditor

Report to the City Council
City of San José

AUDIT OF PENSIONABLE EARNINGS AND TIME REPORTING

Table of Contents

Table of Exhibits

Executive Summary

In accordance with the City Auditor's 2009-10 Audit Workplan, we have completed an Audit of Pensionable Earnings and Time Reporting. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The City Auditor's Office thanks the Finance Department, the Retirement Services Department, the Office of Employee Relations, the City Attorney's Office, and the Human Resources Department for giving their time, information, insight, and cooperation during the audit process.

Finding I Errors Resulted in Higher Pensions

Errors impacting the City's payroll and retirement systems resulted in higher pensions to some retirees. During our review of the pension benefits and retirement data for employees retiring in 2007 and 2008, we found that at least three types of errors need to be corrected, one of which was identified by City administration:

- Four retirees mistakenly receive incorrect pensions because individual retroactive salary increases were not spread across pay periods correctly.[1]

- A few special pays have been erroneously included with base salary in retirees' pension calculations. We found ten cases of retirees receiving these pays in their highest paid year which increased their pensions by as much as five percent.

We estimate that the examples we reviewed can be expected to cost the City more than $1.5 million over the life expectancy of the retirees. The savings we identified are from fixing the test cases only and does not estimate the impact on future retirees.[2]

---

[1] Three retirees currently receive inflated pensions and one retiree receives an understated pension.

[2] We reviewed 133 of 486 retirees from calendar years 2007 and 2008, including 57 of the 333 Federated retirees, and 40 Fire retirees and 36 Police retirees of the combined 153 Police and Fire retirees. We reviewed a proportionately larger sample of Fire retirees due to the FLSA issue impacting the International Association of Firefighters, Local 230.

Exhibit 4: Potential Lifetime Savings from Pension Errors

	Potential Lifetime Savings	% of Total Savings	Sample of Employees Identified and Reviewed in Detail	
Incorrectly Treating Salary Increases	$648,518	41%	Federated	3
			Fire	1
			Police	0
Erroneously Including Higher Class Pay as Pensionable	$925,126	59%	Federated	5
			Fire	1
			Police	4
Total Savings	$1,573,644	100%	Total Count	14

In addition to these mistakes, the City is already working on corrections to a portion of the Fair Labor Standards Act (FLSA) premium on overtime hours that was incorrectly included in pensionable amounts sent to the Police and Fire Department Retirement Plan.

RECOMMENDATIONS

We recommend that going forward, Payroll and Retirement Services:

Recommendation #1   **Establish a process to spread all retroactive raises back through affected pay periods, as they already do for general wage increases. (Priority 3)**

Furthermore, because we only reviewed 2007 and 2008 retirements, we recommend Retirement Services:

Recommendation #2   **Review the highest 12-month salary of all active beneficiaries starting in July 1, 2001[3] and work with Payroll to adjust those with retroactive lump sum payments to ensure that beneficiaries are receiving accurate pensions. (Priority 3)**

We recommend Retirement Services, Payroll, and the City Administration:

Recommendation #3   **Going forward, correct the programming of higher class pay codes such that higher class pays are not pensioned. (Priority 3)**

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[3] July 1, 2001 was the date that the Federated Retirement Plan began using the highest 12-month salary as opposed to the highest three year salary when computing retirement benefits.

We recommend Retirement Services, Payroll, and the City Administration:

Recommendation #4   **To the extent possible, correct pension payments and retirement contributions for the Police and Fire Retirement members and for the Federated Retirement members where higher class pay or management allowances were considered pensionable. (Priority 3)**

We further recommend that the City Manager:

Recommendation #5   **Propose amendments to the Municipal Code to ensure that only pays that are specifically negotiated and defined as pensionable in the Municipal Code for the Police and Fire and Federated Retirement Plans are included in the pension calculations. (Priority 3)**

We recommend that the Retirement Services Department:

Recommendation #6   **Adjust the FLSA pension records for retirees and active employees as soon as possible and recalculate pension benefits for retired firefighters. (Priority 2)**

Finding II   Time Reporting Codes Are Unclear and Duplicative

The City currently maintains 144 time reporting codes and 233 earning codes in PeopleSoft.[4] Time reporting codes and earning codes are used to capture all the various types of pays employees can receive as compensation. Special pays are negotiated with employee unions and specified in union contacts (Memorandums of Agreement) and compensation summaries. For example, specifications on overtime pay and premium pays such as *Motorcycle Duty Pay, Bilingual Pay, Anti-Terrorist Training Pay, Standby Pay and Shift Premium Pay* are negotiated with unions in the Memorandums of Agreement.[5] Other special pays and their corresponding time reporting and earning codes are set up in accordance with the San Jose Municipal Code, city policies and council resolutions. In some cases, earning codes are governed by federal laws including the earning codes set up for compliance with the Fair Labor Standards Act (FLSA), governing minimum wage and overtime, as well as earning codes set up for compliance with the Family Medical

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[4] These numbers are accurate as of May 19, 2009.

[5] There are eleven employee unions represented in the City of San Jose.

Leave Act, governing paid and unpaid leave time for family leaves (including leave for maternity care). We found five concerns with the City's time and earning codes:

- The City does not maintain written policies and procedures for every code,

- Some codes are duplicative with other codes,

- The City maintains some codes despite the fact that they have not been used in at least two years,

- Some City work groups can use codes to which they should not have access and codes are sometimes used incorrectly, and

- Timekeepers and Time-Approving Supervisors need more training and assistance.

RECOMMENDATIONS

We recommend Human Resources, Payroll Section of Finance and the Office of Employee Relations:

Recommendation #7 **Obtain authoritative documentation for time reporting codes and earnings codes, and create written policies and procedures for proper application of all codes, and for regularly reviewing and maintaining an authoritative time/earning code mapping table. (Priority 3)**

We recommend that Payroll, in consultation with Human Resources and the Office of Employee Relations:

Recommendation #8 **Conduct periodic reviews of all codes to cull duplicative or unused codes. (Priority 3)**

We recommend that Payroll, in consultation with Human Resources and the Office of Employee Relations:

Recommendation #9 **Correct past errors and review all codes to ensure that codes are only available for use to applicable work groups. (Priority 3)**

We recommend that Payroll:

Recommendation #10 **Perform periodic reviews of all codes to ensure they are being used correctly. And to the extent possible, correcting past misuse. For example, checking that codes with strict parameters for their use are used correctly, e.g. Cancer Screening Release Time, Unpaid Furlough Leave. (Priority 3)**

We recommend that Payroll, Human Resources, and the Office of Employee Relations:

Recommendation #11   **Conduct regular comprehensive training for timekeepers and supervisors on PeopleSoft, time reporting and earning codes, and any changes in Union negotiated pay or hours. (Priority 3)**

Specifically, we recommend that Payroll:

Recommendation #12   **Provide timekeepers with written procedures and consider having them conduct the periodic monitoring of time codes. (Priority 3)**

Finding III   Some Pensioners Benefit From the City's Definitions of Earnable Income and Highest Salary

Current City practices allow some City employees to receive higher pensions than they would if pensions were based on actual earnings and actual years worked. Additionally, the City's use of a relatively short highest salary time period (12 months) instead of the commonly used highest three year average salary raises some employees' pensions at least by as much as eight percent.

In general, retirement benefits are computed on base earnings, that is, the salary that employees receive for their work with the City. That does not include special pays like bilingual pay, notary fees, graveyard shift premium, or paramedic pay, nor does it include overtime. However, there are a few cases where employees may receive increased pension benefits based on more than their actual base earnings paid and actual years worked. There are also situations where employees receive a much higher pension than anticipated by retiring soon after receiving a large promotion. We reviewed the pension benefits of employees retiring in 2007 and 2008 and note two areas where the City's current policies have led to outcomes that we believe are not in the City's best interest and are costly:

- Employees in the Federated Plan receive pensions not based on base salary *paid* but on base salary *earnable*. They also receive service credit for Years of Service even if they miss as much as 8.5 weeks of work in a calendar year. We found four cases of employees receiving higher pensions than they otherwise would have received if the Municipal Code were updated to base pensions on actual salary paid and actual years worked.

- City employees receive pension benefits based on the highest salary they receive in any twelve month period. Many retirement systems, including the

Federal Government's and the Federated system prior to July 2001, use a high three year average salary. The use of the 12 month high can result in much larger pensions, particularly for employees who receive a promotion in their final year of employment. We found three cases of employees receiving as much as eight percent larger pensions than they would have under a three year high salary system.

As shown below, the examples we identified alone can be expected to increase those employee's pensions by more than $3.1 million over the next 35 years. We expect other retirees would be impacted by our recommendations, which would make the savings much greater than displayed here.

Exhibit 7: Potential Savings by Revising Pension Policies

	Potential Lifetime Savings	% of Total Savings	Sample of Employees Identified and Reviewed in Detail	
Potential Salary Earnable Savings (if pension benefit was based on *"Paid Earnings"*)	$717,185	22%	Federated	4
			Fire	N/A
			Police	N/A
Three Year Final Compensation Savings (if the City stopped using a one-year average for computing pension benefits)	$2,470,384	78%	Federated	0
			Fire	0
			Police	3
Total Savings	$3,187,569	100%	Total Count	7

We recommend the City Council:

Recommendation #13   **Consider amending the Municipal Code to calculate final compensation as the highest base salary received, with suitable exceptions. (Priority 3)**

Recommendation #14   **Consider amending the Municipal Code such that the Retirement Board shall credit a member with one year of federated city service for 2,080 hours of federated city service rendered by the member in any calendar year. (Priority 3)**

Recommendation #15   **Consider amending the Municipal Code to return to a three year average in calculating pension benefits in both Retirement Plans. Prior to July 1, 2001 for the Federated Plan and January 1, 1970 for the Police and Fire Plan, the City used a three year average in calculating pension benefits. (Priority 3)**

Introduction

In accordance with the City Auditor's 2009-10 Audit Workplan, we have completed an *Audit of Pensionable Earnings and Time Reporting*. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The City Auditor's Office thanks the Finance Department, the Retirement Services Department, the Office of Employee Relations, the City Attorney's Office, and the Human Resources Department for giving their time, information, insight, and cooperation during the audit process.

Background

The City's Pension Systems

The City of San José (City) administers two pension plans for City employees: the Police and Fire Department Retirement Plan for sworn employees, and the Federated City Employees' Retirement System for all other eligible City employees. All employees who join the City as full-time eligible employees are members of the plans. Both plans are defined-benefit plans, meaning that the City provides a fixed monthly benefit amount based on years of service with the City and highest one-year salary of employees during their tenure with the City.

- Effective July 1, 1975, the Federated City employees' pension benefit is calculated as follows: 2.5% X Years of Service X Final Compensation (75% maximum);

- Effective July 1, 2008, Firefighter pension benefits are calculated as follows: For less than 20 years of service, 2.5% per Year of Service X Final Compensation; for greater than or equal to 20 years of service, all years at 3% per Year of Service X Final Compensation (90% maximum);

- Effective July 1, 2006, Police Officer pension benefits are calculated as follows: First 20 years of service, 2.5% per Years of Service X Final Compensation; for each year after 20, 4% per Year of Service X Final Compensation (90% maximum).

Years of service for members are defined differently in the two plans. Members of the Police and Fire Plan accrue retirement service credit for each hour paid up to a maximum of 2,080 hours of credit per calendar year. One year of full-time

employment equals 2,080 hours. Federated members accrue one year of service credit if they work at least 1,739 hours in a calendar year. If an employee works less than 1,739 hours in a calendar year, actual hours worked are divided by 1,739 to determine the service credit for that year.

Final compensation is also defined slightly differently for the two plans. Final compensation for Police and Fire members is the highest average monthly salary an employee receives during a consecutive twelve month period with the City. For Federated employees, final compensation is the highest average annual salary an employee *is able to receive* during a consecutive twelve month period. For both plans, this generally does not include overtime pay or special pays[1] unless called out specifically in the Municipal Code.

Three City departments are critical to ensuring that pensionable hours and pension amounts for City employees are accurate: the Payroll Section of the Finance Department, the Retirement Services Department, and the Office of Employee Relations (OER).

Payroll Section of the Finance Department

The Payroll Section is responsible for providing accurate and timely payments to City employees. The Payroll Section is also responsible for overseeing the implementation of controls and program changes in the payroll system (PeopleSoft) that impact the payroll process. Payroll also works with the Office of Employee Relations and Human Resources to ensure that accurate and consistent interpretation of the Municipal Code, union contracts, and City policies are translated into PeopleSoft.

As of September 25, 2009, there were nine employee positions in the Payroll Section as shown in organizational chart below.[2]

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[1] Special pays are all compensation that is not regular pay or paid leave time.

[2] Nine positions do not include Director of Finance and Assistant Director of Finance.

Exhibit I: Payroll Organizational Chart

Director of Finance

Assistant Director of Finance

Division Manager

Payroll Program Manager II

Payroll — **Accounts Payable**

Senior Accountant

Accountant I
(3 positions)

Accounting Tech.
(2 positions)

Principal Acct. Clerk
(1 position)
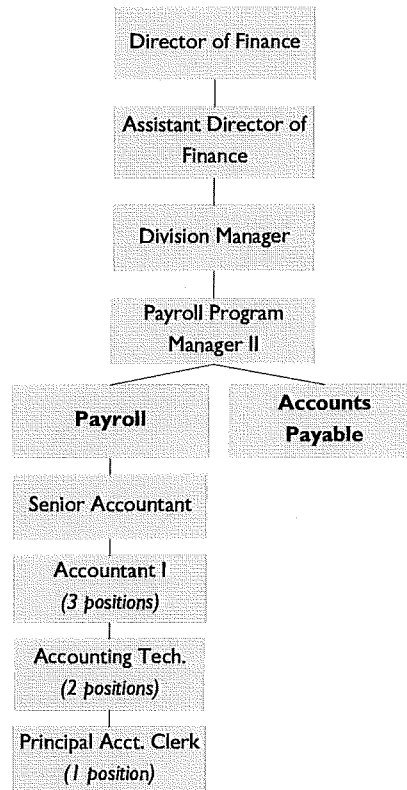
Audit team prepared based on organizational chart information provided by the Finance Department.

The Retirement Services Department

The Retirement Services Department's purpose is to *"administer retirement plans"* by implementing policies and procedures to deliver retirement benefits and maintain the retirement plans. Retirement Services performs the following key operational services to meet their core purpose:

- Supervise the Investment of Plan Assets,
- Provide Retirement Planning and Counseling,
- Administer Retirement Benefits, and
- Analyze, Develop, and Recommend Retirement Policy.

In order to administer retirement benefits, every bi-weekly pay period the Payroll Section of Finance provides Retirement Services with an input file for each retirement plan containing member information such as retirement contributions, salary, and employment history. Retirement Services staff imports this information into the City's pension system application, Pension Gold, and runs tests to ensure that the transmittal is successful and complete.

The City Manager's Office of Employee Relations

The Office of Employee Relations (OER) is responsible for overseeing employee relations and labor relations for the City of San José. Some of their activities include:

- Conducting negotiations of union Memoranda of Agreements (MOAs) with each of the City's eleven unions,

- Facilitating and coordinating new and existing agreements,

- Ensuring fair, accurate and consistent interpretation of contract language Citywide, and

- Consultation and training for supervisors, managers, and timekeepers.

Time-Reporting and Payroll Processes

Earnings that are time dependant (regular hours, overtime, standby pay, and so on) are reported by employees as time reporting codes on their bi-weekly time cards. There are also 103 earning codes that are not time dependant (and as such do not have time reporting codes associated with them) such as bilingual pay. Those codes are entered by Payroll staff directly into the Payroll system once appropriate approvals and documentation have been received.

City employees are responsible for completing their time cards bi-weekly for payroll processing. City employees using online time card reporting may only choose from a limited number of time reporting codes to report their time. Employees are limited to time reporting codes associated with their employee work groups. For example, only sworn Police Department employees have access to use time reporting code PPI (Intermediate Peace Officer Standards and Training Pay). As of May 19, 2009 there were 162 active time reporting codes for 64 employee groups in the Payroll system PeopleSoft.

At the end of every pay period, employee time reporting cards are reviewed and approved by department timekeepers and supervisors. Department timekeepers perform some procedures to ensure employees have entered their time completely and accurately. Department supervisors review time cards to ensure employees choose the appropriate time reporting codes when reporting their time.

Upon the completion of the time card review and approval by timekeepers and supervisors, Payroll staff performs a series of control procedures and tasks to ensure time card accuracy and reasonableness. Some of the tasks performed by Payroll staff include:

- Review reports to ensure that full-time employees report time for scheduled hours in the bi-weekly pay period,

- Review and monitoring of overtime reporting to verify employees who report 40 hours or more of overtime in a pay period obtained written approval,

- Review of all employees receiving over $10,000 in a pay period in gross pay,

- Review of all payable hours for executive employees and all council offices, and

- Follow-up on all missing time cards.

In addition to performing control procedures, Payroll is also responsible for implementing special pays in employees' pay schedules that are not associated with time worked.[3] For example, eligible employees can earn BL1 (Full-Time Bilingual Pay) if their department has requested bilingual pay differential based on the employee's use of a non-English language as part of their regular job duties.

When Payroll has completed processing payroll for the pay period, import files containing employee compensation data and retirement contribution amounts are provided to the Department of Retirement Services. The information transmitted in those files is critical for maintaining and administering pension benefits. The Retirement Services Department's pension application, Pension Gold, only retains aggregate information on pensionable earnings and time worked. Exhibit 2 illustrates the time reporting and earning codes mapping process.

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[3] It should be noted that Payroll does not determine which employees are eligible to receive pay premiums - that responsibility falls to department directors, Human Resources and the Office of the City Manager.

Exhibit 2: Time Reporting Codes & Earning Codes Mapping Diagram
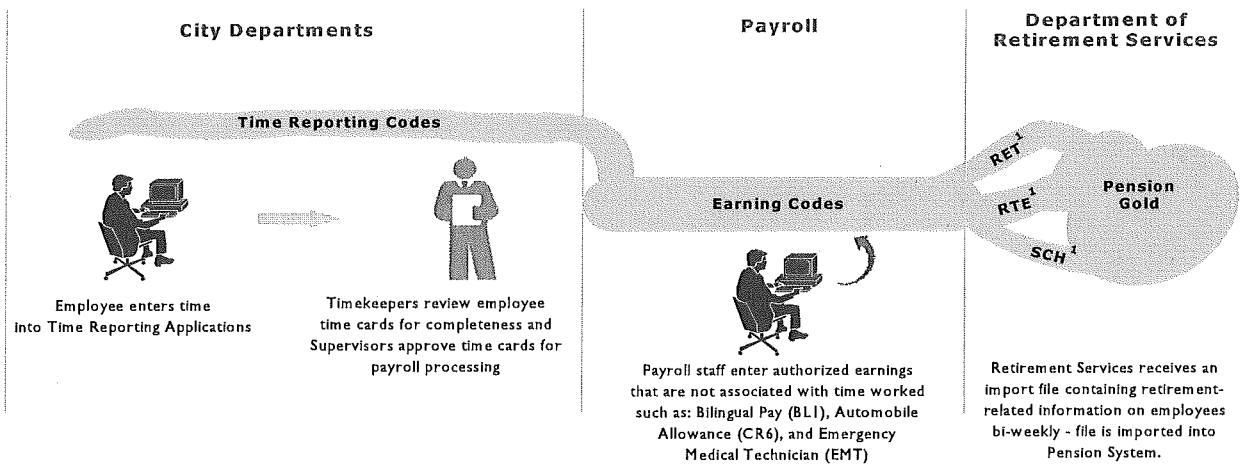
Created by the audit team based on meetings and information obtained from Human Resources, OER, Payroll and the Retirement Services Department.

City Earnings Codes and Governance

City employees have a wide array of codes available to use to report earnings. These include straightforward, simple codes such as those used for regular earnings, sick leave, and vacation, as well as more specialized codes such as those used for winning an employee suggestion award, moving expenses, and police officer motorcycle duty. The City currently maintains 233 earning codes in the Payroll system; 60 of the codes are designated within the Payroll system for inclusion in calculation of pensionable hours and wages.[4]

All earnings codes should be governed by the San José Municipal Code, Memorandums of Agreement (MOAs) with unions, City policies or laws and regulations. Where possible, as part of this audit, we mapped the City's time reporting and earning codes to those documents. See Appendix B for the list of codes.

Earning codes have specific attributes (or "Special Accumulators") that designate whether the earning code is pensionable – meaning, they would be included as part of an employee's final compensation when calculating their retirement benefit. Various earning codes also include special pays, which are established through negotiations with unions.

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[4] These numbers are accurate as of May 19, 2009.

It is generally during the negotiation process between the City and employee bargaining units that employee benefits, compensation and special pays are agreed to by the parties involved. When compensation enhancements or benefits are negotiated or changed, various City departments meet to determine and confer how the new compensation structure or benefit will be implemented into time reporting applications and PeopleSoft.

Exhibit 3: Creation of Earning Codes and Time Reporting Codes Process
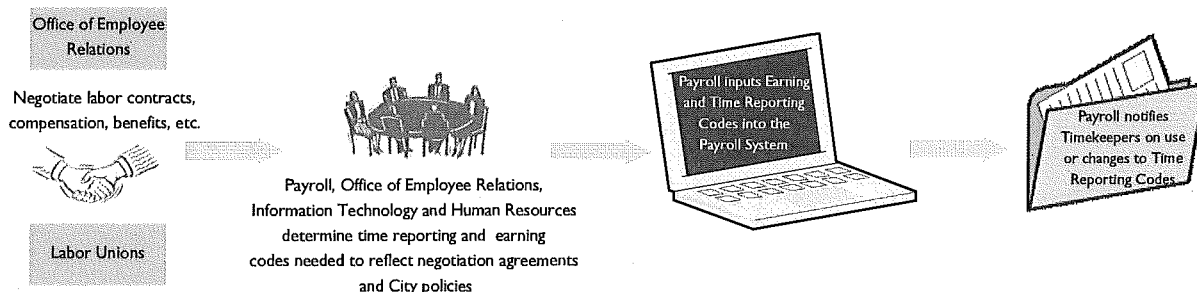
Created by audit team based on meetings and information with the Office of Employee Relations, Payroll and the Information Technology Department.

Audit Objective, Scope, and Methodology

The objective of our audit was to review the time-reporting and payroll processes in so far as they impact pensionable earnings and pensionable hours; describe City time reporting and earning codes and their governance, and examine risks surrounding City earning codes, with particular focus on Fair Labor Standards Act (FLSA) codes.

To achieve our audit objective we performed the following:

1. To describe City time reporting and earning codes we mapped the City's time reporting and earning codes, including their pensionable status, to MOAs, City Policies, Municipal Code sections, and where necessary Payroll division procedures.

2. To review the time-reporting and payroll processes in so far as they impact pension rates and pensionable hours, we reviewed the earnings used to determine pension amounts for a sample of calendar year 2007 and 2008 retirees. We also reviewed the City's policies for consistency with the Municipal Code sections relevant to the City's retirement plans to ensure compliance, and compared our policies with other retirement plans, including our previous City of San José pension policies.

3. To examine risks surrounding City earning codes, we reviewed the use of codes during calendar years 2008 and 2009, looked for duplicated and inactive codes and use out of line with City policies. The mistakes and inappropriate use we found cannot be assumed to

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capture all the potential inappropriate use of codes because we could not find adequate policies or procedures to test against for over 100 of the City's 233 earning codes. We also interviewed City timekeepers to determine whether they received adequate training and guidance on the use of codes. Finally, we tested the City's FLSA pensionable pay correction for firefighter FLSA overtime hours.

4. To assess the accuracy and reliability of payroll and retirement data, we examined a sample of source data from Retirement Services and reconciled it to data from the Finance Department.

Furthermore, we interviewed staff from the Finance Department's Payroll Section, the Office of Employee Relations, the Human Resources Department, the Retirement Services Department, and the Information Technology Department. We reviewed specific retirement provisions in comparable systems. We should note that as City employees, the Auditor's Office staff participates in the retirement system we audited.

We limited the scope of our review to items not being tested by the Retirement Services Department's external auditor who, at the time of our audit, was under contract to perform Agreed Upon Procedures in this area as well. Their report is not expected to be completed this year, but it is expected to determine, among other things, whether military pay and retroactive pay increases have been accurately captured in the pension system. We recommend that Retirement Services ensure that the Agreed Upon Procedures are completed in a timely manner.

Finding I   Errors Resulted in Higher Pensions

Errors impacting the City's payroll and retirement systems resulted in higher pensions to some retirees. During our review of the pension benefits and retirement data for employees retiring in 2007 and 2008, we found that at least three types of errors need to be corrected, one of which was identified by City administration:

- Four retirees mistakenly receive incorrect pensions because individual retroactive salary increases were not spread across pay periods correctly.[5]

- A few special pays have been erroneously included with base salary in retirees' pension calculations. We found ten cases of retirees receiving these pays in their highest paid year which increased their pensions by as much as five percent.

We estimate that the examples we reviewed can be expected to cost the City more than $1.5 million over the life expectancy of the retirees. The savings we identified are from fixing the test cases only and does not estimate the impact on future retirees.[6]

Exhibit 4: Potential Lifetime Savings from Pension Errors

	Potential Lifetime Savings	% of Total Savings	Sample of Employees Identified and Reviewed in Detail	
Incorrectly Treating Salary Increases	$648,518	41%	Federated	3
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Total Savings	**$1,573,644**	**100%**	**Total Count**	**14**

In addition to these mistakes, the City is already working on corrections to a portion of the Fair Labor Standards Act (FLSA) premium on overtime hours that was incorrectly included in pensionable amounts sent to the Police and Fire Department Retirement Plan.

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[5] Three retirees currently receive inflated pensions and one retiree receives an understated pension.

[6] We reviewed 133 of 486 retirees from calendar years 2007 and 2008, including 57 of the 333 Federated retirees, and 40 Fire retirees and 36 Police retirees of the combined 153 Police and Fire retirees. We reviewed a proportionately larger sample of Fire retirees due to the FLSA issue impacting the International Association of Firefighters, Local 230.

At Least Four Retirees Are Receiving Incorrect Pensions Because Retroactive Salary Increases Were Not Treated Correctly in the Retirement Services Computer System

When employees receive merit or promotional raises, the raises are frequently retroactive. Once the updated salary information is entered into PeopleSoft (the Payroll system), employees receive a lump sum payment for retroactive pay increases in their next paycheck. If the lump sum is not spread in the Pension system to all affected periods this can effect pensionable income and the calculation of employees' highest salary year.

The Payroll Section routinely "spreads" general and union negotiated raises to the applicable pay periods before sending the information to the pension system. However, we found that this is not the case with individual merit raises. Specifically, we found that approximately 20 percent of the Federated Plan retirees we sampled received a raise with a lump sum payment in their highest earnable year. Individual merit raises occur much less frequently for employees in the Police and Fire Plan, so we only found one example from that plan. In most cases, the distribution of the lump sum payment all fell within the 12 months comprising the employee's highest salary year for pension purposes; therefore there was no effect on the employee's pension amount.

However, we found four cases which did have an effect. In one case, an employee, who is now retired, received a lump sum payment of over $8,400 in the highest earnable year that was not properly spread back in the pension system. This caused the pension to be overstated by more than $630 per month; at a total expected cost to the City of about $420,000 over the life expectancy of the retiree.

As such, we recommend that going forward, Payroll and Retirement Services:

Recommendation #1

Establish a process to spread all retroactive raises back through affected pay periods, as they already do for general wage increases. (Priority 3)

Furthermore, because we only reviewed 2007 and 2008 retirements, we recommend Retirement Services:

Recommendation #2

Review the highest 12-month salary of all active beneficiaries starting in July 1, 2001[7] and work with Payroll to adjust those with retroactive lump sum payments to ensure that beneficiaries are receiving accurate pensions. (Priority 3)

A Few Higher Class Pay Codes Have Been Erroneously Included with Base Salary in Employee Pension Calculations

The Police and Fire and Federated Retirement Plans are each outlined in sections of the City's Municipal Code. Both plans have specific definitions of what constitutes "Compensation" in calculating pension benefits. The Federated Plan also uses the term "Compensation Earnable" in its definition of final compensation, which is discussed in more detail in Finding III.

The City has long held that only special pays that are specifically called out in the "Compensation" sections of the Municipal Code should be included in pension calculations. For example, the Municipal Code section defining "Compensation" for the Police and Fire Plan specifically states that special pay for maintaining an Emergency Medical Technician certificate will be pensionable as will anti-terrorism training pay. Anti-terrorism training pay is also specifically described as pensionable in the Federated Plan. Higher class pay and the management equivalent (management allowances) are not described in the Municipal Code as pensionable. However, our review revealed that the City has been including these higher class pays in pension calculations. The City's chief negotiator for union contracts has affirmed that higher class pays should not be pensioned for any City employees and that pensioning them is an error.

Higher class pays are intended to be used temporarily and are paid on an hourly basis.[8] The Police and Fire Municipal Code "Compensation" section specifically *excludes* any payments made on a per hour basis (3.36.020 A). Furthermore, like

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[7] July 1, 2001 was the date that the Federated Retirement Plan began using the highest 12-month salary as opposed to the highest three year salary when computing retirement benefits.

[8] Some employees received this pay only sporadically in their highest paid year while others received it every pay period. One employee received higher class pay for all work hours consistently for the last four years he was with the City. This is in violation of the Higher Class Pay policy which disallows the higher class pay premium to be paid on leave hours such as vacation, executive, and holiday -- both of which this retiree used. That employee also received a pay raise with a retroactive lump sum payment that was not applied to all effected pay periods. If the retroactive payment were applied to all affected pay periods and if the higher class pay were not included in that employee's pension payments, the City could expect to save over $420,000 over the life expectancy of that retiree.

employees of the Police and Fire Plan, Federated employees receive higher class pay on an hourly basis, and under the Federated Retirement Municipal Code Section, only amounts paid on a bi-weekly basis are to be pensioned.

Ten of the retirees in our sample received higher class pay in their highest paid year -- five Federated retirees and five Police and Fire retirees. For these ten employees, erroneously including higher class pays with base salary will increase their pensions by an estimated $925,000 collectively over their lifetimes.[9]

We recommend Retirement Services, Payroll, and the City Administration:

Recommendation #3

Going forward, correct the programming of higher class pay codes such that higher class pays are not pensioned. (Priority 3)

Recommendation #4

To the extent possible, correct pension payments and retirement contributions for the Police and Fire Retirement members and for the Federated Retirement members where higher class pay or management allowances were considered pensionable. (Priority 3)

We further recommend that the City Manager:

Recommendation #5

Propose amendments to the Municipal Code to ensure that only pays that are specifically negotiated and defined as pensionable in the Municipal Code for the Police and Fire and Federated Retirement Plans are included in the pension calculations. (Priority 3)

Corrections Are Underway for a Portion of the FLSA Premium on Overtime Hours That Was Incorrectly Included in Pensionable Amounts

The Fair Labor Standards Act (FLSA) prescribes standards for minimum wage and overtime pay for private and public employment. It requires employers to pay employees, who are not otherwise exempt, overtime or compensatory time-off at one-and-one-half-times the regular rate of pay. Certain occupations are exempt from the overtime pay provisions, such as professional, administrative

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[9] Based on our limited review, we were unable to determine the retirement contribution amounts that will need to be reimbursed to employees and the City.

and computer-related occupations.[10] Law enforcement and fire protection personnel are covered under FLSA but there are special provisions which allow their employers to calculate overtime based on a 28-day cycle, rather than a seven day workweek. FLSA defines overtime on a 28-day cycle as more than 171 hours for law enforcement personnel and more than 212 hours for fire protection personnel.

Under FLSA, the overtime rate is computed on the basis of the average hourly rate derived from all employment compensation -- salary and premium pays such as anti-terrorist pay, emergency medical technician pay, bilingual pay, and education and training pay.

Impact of FLSA for City Employees

While most police and nonexempt Federated employees are normally scheduled to work 40 hours per week, City of San José fire personnel are generally scheduled to work a 56 hour work week (224 hours in a 28-day cycle). This creates a circumstance for firefighters where, in compliance with FLSA, the City pays employees an *FLSA overtime premium* for 12 of their regularly scheduled hours (224 less 212).[11] According to the Police and Fire Department Retirement Plan section of the San José Municipal Code,[12] the FLSA premium on regularly scheduled "overtime" hours is pensionable, while non-scheduled overtime is not pensionable. Exhibit 5 is an illustration of how FLSA overtime premium pay applies to City employees.

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[10] Most employees in the United States are covered under FLSA, but certain classes of employees are exempt including but not limited to: executive, administrative, professional, computer-related occupations, outside sales, and highly compensated employees who regularly perform executive, administrative or professional duties. FLSA fact sheets specifically call out that certain workers (those who perform work involving repetitive operations with their hands, physical skill and energy) and *police officers*, detectives, deputy sheriffs, investigators, inspectors, park rangers, *fire fighters*, paramedics, emergency medical technicians, ambulance personnel, rescue workers, hazardous materials workers and similar employees, regardless of rank or pay level, *are covered* by FLSA.

[11] No other City employees receive pensionable FLSA overtime hours. There are two reasons for this: 1) no other City employees are regularly scheduled to work hours that exceed the FLSA overtime threshold, and 2) if any employees were to be regularly scheduled to exceed the threshold, those hours would be paid as normal overtime (non-pensionable) hours unless their bargaining unit specifically negotiated with the City to amend the Municipal Code to allow those employees to receive pensionable FLSA overtime hours.

[12] §3.36.020.3 of the San José Municipal Code: "Compensation" shall include premium pay paid pursuant to the Fair Labor Standards Act (FLSA) for regularly scheduled hours for employees who are assigned to a work week averaging fifty-six hours per week over a twelve-month period, subject to the following limitations: (1) "Compensation" shall only include FLSA premium pay which is earned and payable on or after December 28, 1997.

Exhibit 5: FLSA Overtime Premium Pay for City Employees

City Painter	FLSA Threshold - 40 hours, 7-day cycle Regular Hours Worked - 40 Overtime Hours Worked - 8	40 regular hours worked are paid at the regular hourly rate	⟶ Pensionable
		8 hours of overtime worked are paid at 1.5 times the employee's hourly rate (including premiums)	⟶ Non-Pensionable
City Firefighter	FLSA Threshold - 212 hours, 28-day cycle Regular Hours Worked - 224 Overtime Hours Worked - 10	212 regular hours worked are paid at the regular hourly rate 12 regular hours worked are paid at 1.5 times the employee's hourly rate (including premiums)	⟶ Pensionable
		10 hours of non-scheduled overtime worked are paid at 1.5 times the employee's hourly rate (including premiums)	⟶ Non-Pensionable

FLSA Issues Identified by City Administration

The City Administration recently discovered that a portion of "non-scheduled" overtime pay was being incorrectly treated as pensionable in the Payroll system. For the example shown in Exhibit 5, this means that a portion of the firefighter's ten hours of overtime earnings would have been incorrectly treated as pensionable.

Consequently, pension contributions were withheld on those earnings and employees' pensionable earnings were inflated as a result of this error. The issue derived from the programming of the City's payroll system (PeopleSoft), which was reporting the FLSA premium on scheduled overtime hours and FLSA premium on non-scheduled overtime hours as a single amount, when it should have been reporting each type of FLSA premium amount separately, pensionable and non-pensionable respectively.

City Has Implemented an FLSA Program to Correct Issues

In response to the FLSA issues identified, the City has taken the following corrective actions:

- The City changed the FLSA calculation going forward to break down the FLSA premium between FLSA pensionable and FLSA non-pensionable as two different codes, effective February 13, 2009.

- The City created spreadsheets to separate pensionable and non-pensionable FLSA premium adjustments for firefighters going back as far as 1998.

Given that these FLSA issues impacted pensionable earnings and contributions withheld from Fire Department employee earnings, Payroll has made a calculation of the adjustments that would be made to correctly reflect pension amounts and

employee and City retirement contribution balances. Payroll created a spreadsheet (which we have reviewed) to adjust for over-contributions to the retirement system for all City firefighters impacted by this issue. The City has estimated the over-contributions of employees and the City at approximately $1 million.

Auditor's Review of FLSA

The audit team reviewed the FLSA spreadsheets prepared by the Payroll Section of the Finance Department to assess whether the adjustment calculations are complete and accurate. As part of our review, we sampled pay data from a number of firefighters over their tenure with the City.[13] We reviewed individual pay stubs and computed the FLSA premiums for regularly scheduled overtime and non-scheduled overtime to ensure the City's adjustment amounts were correct. In addition, we reviewed the accuracy of retroactive payment adjustments to the FLSA adjustment spreadsheet and noted that retroactive adjustments were accurately computed for the sample we reviewed.

Given the above, we have concluded that the FLSA adjustment amounts computed by the Finance Department as of September 22, 2009 are accurate. However, it should be noted that until June 2008, the City's calculations of FLSA overtime rates did not consider Holiday in Lieu (HIL) pay in determining firefighters' regular rate of pay. The City is currently involved in litigation with the firefighters in which this issue has been raised and is currently subject to settlement discussions. If, as a result of the settlement, HIL is retroactively applied to FLSA payments, the City's spreadsheet will need to be updated and our review will need to be revised.[14]

We recommend that the Retirement Services Department:

Recommendation #6

Adjust the FLSA pension records for retirees and active employees as soon as possible and recalculate pension benefits for retired firefighters. (Priority 2)

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[13] The audit team reviewed the list of employees who received pensionable FLSA overtime over the last ten years and reviewed the computation for a sample of employees.

[14] The resolution of errors previously mentioned in this report (retroactive pay and higher class pay) could also have an impact and would also require further review.

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Finding II   Time Reporting Codes Are Unclear and Duplicative

The City currently maintains 144 time reporting codes and 233 earning codes in PeopleSoft.[15] Time reporting codes and earning codes are used to capture all the various types of pays employees can receive as compensation. Special pays are negotiated with employee unions and specified in union contacts (Memorandums of Agreement) and compensation summaries. For example, specifications on overtime pay and premium pays such as *Motorcycle Duty Pay, Bilingual Pay, Anti-Terrorist Training Pay, Standby Pay and Shift Premium Pay* are negotiated with unions in the Memorandums of Agreement.[16]   Other special pays and their corresponding time reporting and earning codes are set up in accordance with the San Jose Municipal Code, city policies and council resolutions. In some cases, earning codes are governed by federal laws including the earning codes set up for compliance with the Fair Labor Standards Act (FLSA), governing minimum wage and overtime, as well as earning codes set up for compliance with the Family Medical Leave Act, governing paid and unpaid leave time for family leaves (including leave for maternity care). We found five concerns with the City's time and earning codes:

- The City does not maintain written policies and procedures for every code,

- Some codes are duplicative with other codes,

- The City maintains some codes despite the fact that they have not been used in at least two years,

- Some City work groups can use codes to which they should not have access and codes are sometimes used incorrectly, and

- Timekeepers and Time-Approving Supervisors need more training and assistance.

The City Should Have Authoritative Sources and Maintain Written Policies and Procedures for Every Code

Generally, all time reporting codes and earning codes should be supported by authoritative records such as Memorandums of Agreement (MOAs), the Municipal Code, city policies, council resolutions or laws and regulations. However, we found that approximately 60 percent of the City's 233 earning codes did not have sufficient, clearly documented authoritative support for their

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[15] These numbers are accurate as of May 19, 2009.

[16] There are eleven employee unions represented in the City of San Jose.

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use. Ensuring that all time reporting and earning codes are supported with authoritative support, written policies and procedures is essential to make certain that codes are used correctly. The list of these codes is included in Appendix B.

In some cases authoritative sources pertaining to the use of codes exist but the procedures are not clear around issues including: pensionable status, the appropriate work groups which should have access to the codes, how and when the codes should be used, and how they should be monitored. For example, there are six different Family and Medical Leave Act (FMLA) codes (*FMLA Comp-Time Taken, FMLA Executive Leave, FLMA Sick Leave, FMLA Vacation Leave, FMLA Personal Leave and FMLA Lost Time*), yet there are no city procedures outlining the use of these codes.

As another example, there are eleven different (pensionable) special pay codes[17] for higher class pay which are actively used to pay employees an additional 0.5% to 5% of their base salary. However there are no formal procedures on the approval process, monitoring or pensionable treatment of these codes.

We recommend Human Resources, Payroll Section of Finance and the Office of Employee Relations:

Recommendation #7

Obtain authoritative documentation for time reporting codes and earnings codes, and create written policies and procedures for proper application of all codes, and for regularly reviewing and maintaining an authoritative time/earning code mapping table. (Priority 3)

Duplicative and Unused Codes Should Be Removed

We reviewed use of the City's earning codes during calendar years 2008 and 2009 to ensure that the City holds active only codes which are currently in use and should be available.

Some Codes Are Duplicative with Other Codes

In our review of the City's earning and time reporting codes we noted that there were at least eight codes that seem to be duplicative of other codes. For example, the following active codes have the same description and setup in PeopleSoft:

- CCI (Call Back for Comp) and CCJ (Call Back for Comp),

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[17] Also discussed in Finding 1 in the section: *A few special pays have been erroneously included with base salary in employee pension calculations.*

- CMJ (Overtime for Comp) and CMP (Overtime for Comp),

- TST (Regular Time) and REG (Regular Time), and

- PN9 (Professional Development Program) and PDP (Professional Development Program).

In order to reduce the volume of codes to maintain we recommend removing all unnecessary and duplicate codes.

The City Maintains Some Codes Despite the Fact That They Have Not Been Used in at Least Two Years

We also found that some codes are active in the payroll system but are not being used. Examples include: CR2 ($200 Car Allowance), CRN (Crane Operation), EIL (Enhanced Dental In-Lieu), FIT (Fitness Programs), MER (Pensionable Merit Pay), MRT (Taxable Mileage Reimbursement), and UAA (Uniform Allowance Accrual). In addition, eight of the 13 Management Allowance codes have not been used in at least two years.

We recommend that Payroll, in consultation with Human Resources and the Office of Employee Relations:

Recommendation #8

Conduct periodic reviews of all codes to cull duplicative or unused codes. (Priority 3)

Some City Work Groups Can Use Codes to Which They Should Not Have Access

Payroll has created 64 work groups in PeopleSoft, the payroll software. The groups were created to limit the types of pay available to individual employees to only those which they have documented authority to use. For example, hourly employees can earn overtime hours (OVT) which salaried employees cannot. As each MOA has slight variations on types of pay available and differences in overtime and the like, work groups are organized by union, part-time/full-time status, benefit status, and other characteristics when necessary. An example of one of the City's work groups is the *Association of Engineers and Architects Professional Management Part-time Benefitted* work group. These details on each employee group allow Payroll to ensure that codes are available to only intended employees.

However, we found a few codes which were available to the wrong groups. These include:

Exhibit 6: List of Codes Available to Non-Authorized Employee Groups

Code	Description	Problem
OV2	Double-time	Incorrectly available to some MEF employees
OVT	Overtime	Incorrectly available to some AEA employees
SCJ	Standby for Comp Time Off	Incorrectly available to some ABMEI employees
SPJ	Standby for Pay	Incorrectly available to some ABMEI employees
PA2	AEA Professional Achievement Incentive Pay	Incorrectly available to some Unit 99 employees
SHW	Shift Premium $1.40/hour	Incorrectly available to some full-time OE3 employees

As a result, we found incorrect use of some codes. In some cases, the incorrect use stems from the wrong work groups having access to the codes. For example, we found that SHW (Shift Premium $1.40/hour) was used by some full-time OE3 employees in 2009. In these cases, the employees likely should have used SH2 (Shift Premium $1.50/hour) which would have resulted in the employees' receiving slightly higher earnings. We also found that OV2 (Overtime for Pay at 2.0) was used by an MEF employee in 2009, which resulted in additional compensation of approximately $96 for the pay period.

We recommend that Payroll, in consultation with Human Resources and the Office of Employee Relations:

Recommendation #9

Correct past errors and review all codes to ensure that codes are only available for use to applicable work groups. (Priority 3)

Some Codes Have Been Used Improperly

In some cases codes were supposed to have a maximum use imposed, but some employees used more hours than were supposed to. These include:

- CSR (Cancer Screening Release Time) limited to three hours per calendar year, but in 2009 five employees used anywhere from 4 to 6 hours of CSR, which resulted in the City paying approximately $255 more for CSR in 2009 than it should have for these employees.

- UFL (Unpaid Furlough Leave) limited to 45 hours in 2008-09 but 28 employees used anywhere from 46 to 90 hours of UFL.

We recommend that Payroll:

Recommendation #10

Perform periodic reviews of all codes to ensure they are being used correctly. And to the extent possible, correcting past misuse. For example, checking that codes with strict parameters for their use are used correctly, e.g. Cancer Screening Release Time, Unpaid Furlough Leave. (Priority 3)

Timekeepers and Time-Approving Supervisors Need More Training and Assistance

Department Timekeepers and Supervisors responsible for approving timecards play a critical role in ensuring that time reporting codes are used correctly, which ultimately ensures that paychecks and pension amounts accurately reflect time worked and income earned. We found that timekeepers and supervisors have not had formalized training on their role in several years nor have they received a comprehensive list of all the codes employees may use with the parameters for their use. We consider these essential components to ensuring that timekeepers and supervisors can do their jobs correctly. Timekeepers *do* have access to online training for basic timekeeping processes, but that training is not customized for the City of San José's many time reporting codes.

We recommend that Payroll, Human Resources, and the Office of Employee Relations:

Recommendation #11

Conduct regular comprehensive training for timekeepers and supervisors on PeopleSoft, time reporting and earning codes, and any changes in Union negotiated pay or hours. (Priority 3)

We also suggest that Payroll develop processes for timekeepers to do more monitoring of the use of earning codes; this could help Payroll ensure compliance without overburdening their staff. Specifically, we recommend that Payroll:

Recommendation #12

Provide timekeepers with written procedures and consider having them conduct the periodic monitoring of time codes. (Priority 3)

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Finding III   Some Pensioners Benefit from the City's Definitions of Earnable Income and Highest Salary

Current City practices allow some City employees to receive higher pensions than they would if pensions were based on actual earnings and actual years worked. Additionally, the City's use of a relatively short highest salary time period (12 months) instead of the commonly used highest three year average salary raises some employees' pensions at least by as much as eight percent.

In general, retirement benefits are computed on base earnings, that is, the salary that employees receive for their work with the City. That does not include special pays like bilingual pay, notary fees, graveyard shift premium, or paramedic pay, nor does it include overtime. However, there are a few cases where employees may receive increased pension benefits based on more than their actual base earnings paid and actual years worked. There are also situations where employees receive a much higher pension than anticipated by retiring soon after receiving a large promotion. We reviewed the pension benefits of employees retiring in 2007 and 2008 and note two areas where the City's current policies have led to outcomes that we believe are not in the City's best interest and are costly:

- Employees in the Federated Plan receive pensions not based on base salary *paid* but on base salary *earnable*. They also receive service credit for Years of Service even if they miss as much as 8.5 weeks of work in a calendar year. We found four cases of employees receiving higher pensions than they otherwise would have received if the Municipal Code were updated to base pensions on actual salary paid and actual years worked.

- City employees receive pension benefits based on the highest salary they receive in any twelve month period. Many retirement systems, including the Federal Government's and the Federated system prior to July 2001, use a high three year average salary. The use of the 12 month high can result in much larger pensions, particularly for employees who receive a promotion in their final year of employment. We found three cases of employees receiving as much as eight percent larger pensions than they would have under a three year high salary system.

As shown below, the examples we identified alone can be expected to increase those employee's pensions by more than $3.1 million over the next 35 years. We expect other retirees would be impacted by our recommendations, which would make the savings much greater than displayed here.

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Exhibit 7: Potential Savings by Revising Pension Policies

	Potential Lifetime Savings	% of Total Savings	Sample of Employees Identified and Reviewed in Detail	
Potential Salary Earnable Savings (if pension benefit was based on "*Paid Earnings*")	$717,185	22%	Federated	4
			Fire	N/A
			Police	N/A
Three Year Final Compensation Savings (if the City stopped using a one-year average for computing pension benefits)	$2,470,384	78%	Federated	0
			Fire	0
			Police	3
Total Savings	**$3,187,569**	**100%**	**Total Count**	**7**

Employees in the Federated Plan Receive Pensions Not Based on Base Salary *Paid* and Full Years of Service Worked but on Base Salary *Earnable* and Partial Years Worked

Employees are considered full-time as long as they have the opportunity to work 40 hours per week. We found instances of employees sometimes working as few as 32 hours per week but receiving pension benefits on 40 hours of work. This occurs because the Federated Plan bases the highest 12-month salary on earnable income (what one could earn if they work all 2080 hours in a 12-month period) instead of on actual earnings over 12 months.

Employees' are paid only for hours worked including regular time and time on paid leaves, such as vacation and sick leave. However, there are a number of ways employees may not receive their full salary in a given pay period. These include:

- Electing to take unpaid days during the year. There are currently two options for this:
  - volunteering for up to 45 hours of Unpaid Furlough Leave per year, and
  - choosing to take the City Hall Holiday Closure period as unpaid time.
- Volunteering for the Reduced Work Week program (choosing to take a temporary reduction in hours).
- Signing up for an Unpaid Leave of Absence (these are often requested for family or medical reasons).
- Not showing up for work or exhausting all other leave time (reported as Lost Time).

- Receiving Temporary Disability and Disability Leave Supplement while absent from work as the result of a Worker's Compensation claim, and thus earning only 85 percent of base salary (Federated only; sworn personnel are entitled to 100 percent of pay for up to one year).

The Municipal Code section defining final compensation[18] has the benefit, for example, of allowing employees who become disabled on the job to receive an equivalent pension to what they would have received if they were not injured on the job. However, it also creates a situation where other employees may take voluntary unpaid time off in their highest potential earning year without impacting their pensions. Moreover, it creates an unfunded liability in the pension system because the City and employees do not make pension contributions on the hours not worked.

The Municipal Code section 3.28.680B explains that the Retirement Board shall credit a member with one year of federated city service for 1,739 or more hours of Federated city service rendered by the member in any calendar year, which means that an employee can miss up to 341 hours or the equivalent of 8.5 weeks of work in any year and still receive a full year of service credit. We found that this code section, together with the salary earnable section, allow employees to receive higher pensions than they otherwise would and to under-contribute to the pension system.

We reviewed files for 57 of the 333 Federated employees who retired in calendar years 2007 and 2008 and found four cases of employees receiving higher pensions than they would have received if pensions were based on earned income and full years worked. These four cases alone can be expected to cost the retirement system over $717,000 over the life expectancy of these retirees.[19]

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[18] Per Municipal Code section 3.28.030.11, (as of July 1, 2001) "Final compensation" means the highest average annual compensation earnable by the member during any period of twelve consecutive months of federated city service, including time prior to entering federated city service at the compensation earnable by the member in the position first held by him or her in such service as may be necessary to complete twelve consecutive months; provided, however, that such final compensation shall not exceed one hundred eight percent of the second-highest average annual compensation earnable by the member during any twelve consecutive months, excluding all of the months used to determine the highest average annual compensation earnable; and provided further if the member has been subject to a mandatory reduction in paid working time, the calculation for compensation earnable shall include the compensation that would have been earnable had the member not been subject to a mandatory reduction in paid working time.

[19] We recalculated what the highest 12-month salary would have been if actual earnings were used and used that figure in the pension formula in order to determine what the difference would be in monthly pension payments. We then multiplied the monthly payment difference by the Retirement Services Department's actuarially determined estimated number of payments and compounded that total by the pension system's three percent guaranteed annual cost-of-living-adjustment to determine the total cost per person of this policy.

Examples

One employee on a reduced work week of 32 hours per week during the last three years of employment with the City received a pension 16 percent higher than the employee would have received if actual earnings were used to determine the pension amount. This employee earned approximately $6,535 per month in their highest paid year with the City, but had an earnable salary of $7,554, which increased their initial monthly pension payments by over $400. This employee received a disability retirement, and as such, service credit was the standard 40 percent. The total cost of this situation (payments are expected to continue for 30 years) is estimated at nearly $200,000. As an aside, employees in permanent part-time positions, as opposed to temporary reduced work week positions, receive pension benefits on actual earnings, not salary earnable.

Another employee used Lost Time and other unpaid leaves (most often reported when employees fail to report to work or cannot come to work but do not have any paid leave times available) on average 11 hours per pay period in the highest earnable year. This employee also missed 16 weeks of work in the second to last year of employment (approximately 200 hours of unpaid time off plus another 11 weeks of Unpaid Leave of Absence) and reported unpaid time in every year for which we have data in the Payroll system (since 1997). The only effect this had on the employee's pension was a slight decrease in service credit in 2005 because the employee missed more than 300 hours of work.[20] This employee also earned at least half of a year of service credit more than they otherwise would have if service credit were based on full-years of service.[21] This employee earned approximately $3,829 per month in their highest paid year but had an earnable salary of $4,427, which increased their initial monthly pension payments by over $312. The total cost of this situation (payments are estimated to continue for 30 years) is estimated at $273,000.

Other jurisdictions, such as San Diego, in its recently updated (July 2009), Municipal Code (Section 24.0103) define base compensation as base salary *paid*. Such a provision could allow specific exceptions for employees on disability leave or mandatory reduction in paid working time (furloughs). As a result, for example, if an employee's highest salary would have come during a period in which the employee received disability leave supplement as the result of worker's compensation, then the highest compensation earnable could be used for the affected period.

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[20] This employee also received employee medical and dental benefits only available to employees working over 34 hours per week at least since 1999 and received salary raises which increased compensation by 40 percent from 1998 to 2007.

[21] We calculated actual hours worked for 1999 and each calendar year thereafter. We did not modify service credit information for years prior to 1999 because detailed information is not readily available from the system used before the implementation of Pension Gold, the Retirement Services Department's pension application.

We recommend the City Council:

> **Recommendation #13**
>
> **Consider amending the Municipal Code to calculate final compensation as the highest base salary received, with suitable exceptions. (Priority 3)**

> **Recommendation #14**
>
> **Consider amending the Municipal Code such that the Retirement Board shall credit a member with one year of federated city service for 2,080 hours of federated city service rendered by the member in any calendar year. (Priority 3)**

Basing Final Salary on Twelve Months Instead of Three Years Can Result in Much Larger Pension Payments

Pension calculations are based on the highest 12-month salary an employee earns (or in the case of Federated employees is eligible to earn.)[22] As the period used to determine final salary is shortened, the final salary payment moves further away from reflecting the actual average salary (and contributions) employees received over the course of their career. As you lengthen the period, you obtain a more predictable final salary. To highlight this situation, we determined how final salaries and pension payments would change for three Police Department employees who received a promotion during their last two years of service. We found that using a twelve month high instead of a three year high increased their pension amount by as much as eight percent.

If the City returned to offering pension benefits on the highest three year salary instead of twelve month salary, the City could save a considerable amount of money. The savings associated with moving to a three year average for the three employees in our sample would save the City an estimated $2.5 million over the 34 years of projected payments.

We recommend the City Council:

> **Recommendation #15**
>
> **Consider amending the Municipal Code to return to a three year average in calculating pension benefits in both Retirement Plans. Prior to July 1, 2001 for the Federated Plan and January 1, 1970 for the Police and Fire Plan, the City used a three year average in calculating pension benefits. (Priority 3)**

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[22] There is a rule that limits the salary used to 108% of the second highest 12-month salary received.

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Memorandum

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

TO: Sharon Winslow Erickson
City Auditor

FROM: Debra Figone
City Manager

SUBJECT: ADMINISTRATION'S RESPONSE TO *"AN AUDIT OF PENSIONABLE EARNINGS AND TIME REPORTING"*

DATE: December 7, 2009

BACKGROUND

The Administration has reviewed *"An Audit of Pensionable Earnings and Time Reporting"* (the Audit) and is in agreement with the findings and recommendations made by the City Auditor's Office.

The Department of Retirement Services was notified that the Auditor's Office was interested in auditing pensionable earnings and time reporting, with a focus on identifying and examining accuracy issues with regards to payroll and time reporting processes, which has a critical impact on the calculation of pensionable hours and earnings to retirees. The Audit discloses instances of payroll and retirement system errors, time reporting code duplications/unclear definitions, and a general inefficiency in the income standard for which pensions are based on. Furthermore, this Audit brings to the Administration's attention several cost saving opportunities for efficiency, which are critical within the broader context of the City's current budget environment.

In light of the recommendations that this Audit has provided, the Administration will work closely to develop a workplan with the Departments of Retirement Services, Finance, Human Resources and the Office of Employee Relations to:

(1) Conduct a comprehensive review and correct the administrative processes and procedures that the Audit has revealed as being inaccurate and costly to our City's general and pension funds.

(2) Develop curriculum and offer training for timekeepers and Payroll staff to ensure common understandings and universal applications of payroll guidelines/principles and codes.

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RECOMMENDATIONS AND RESPONSE

Workplan Item #1: Conduct a comprehensive review and correct the administrative processes and procedures that the Audit has revealed as being inaccurate and costly to our City's general and pension funds.

The Audit found that there are instances in which data that are transferred from the City's Payroll system to the Department of Retirement Services is difficult to extrapolate and has the potential for causing errors. The City Administration recognizes that errors in final average salary and years of service credit could significantly impact pension benefits paid by the two retirement plans. The Department of Retirement Services and the Finance Department will partner to review the data in the City's payroll system and ensure that criterion is established when transferring payroll data on a bi-weekly basis to Retirement Services. This will include the development of an automated system to transfer the data to Retirement Services. This will ensure that information is transferred correctly and will help minimize the potential for future errors.

In addition, the City Administration has been informed that the Retirement Boards have contracted their external auditors, Macias, Gini, & O'Connell, to perform procedures to determine whether the Department of Retirement Services and the Finance Department have systems and controls established to comply with the provisions of Chapters 3.28 and 3.36 of the San Jose Municipal code related to the capture, transfer and recording of contributions.

Workplan Item #2: Develop curriculum and offer training for Time-Keepers and Payroll staff to ensure common understandings and universal applications of payroll guidelines/principles and codes.

The Audit found that the City has numerous payroll codes that are available and may be utilized by City employees; however, there is no training or reference manual for departments and timekeepers to utilize. As a result, there is a potential for employees to misuse or utilize a payroll code incorrectly.

The Finance Department, in coordination with the Office of Employee Relations and Human Resources, will develop a payroll time keeping reference manual that can be utilized by departments and timekeepers. Additionally, periodic training will be offered on time reporting.

Below is a discussion on each specific recommendation:

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Recommendation # 1: Establish a process to spread all retroactive raises back through affected pay periods, as they already do for general wage increases. (Priority 3)

The Administration agrees with this recommendation. Currently, Finance-Payroll staff manually calculates retroactive pay utilizing an Excel spreadsheet application. Effective the 1st payroll in November, Payroll will provide the retroactive calculation in Excel spreadsheets to the Department of Retirement Services, which will allow Retirement staff to manually input the adjustments into the Department of Retirement Services retirement system (Pension Gold).

A team consisting of staff from the departments of Information Technology, Retirement Services and Finance will develop and test an automated system that will produce the data as an automated retirement Pension Gold interface file. This will ensure that information is transferred correctly and will help minimize the potential for future errors. Once training is complete, the system will be implemented. The estimated implementation date is Spring, 2010.

Recommendation #2: Review the highest 12-month salary of all active beneficiaries starting in July 1, 2001 and work with Payroll to adjust those with retroactive lump sum payments to ensure that beneficiaries are receiving accurate pensions. (Priority 3)

The Administration agrees with this recommendation in part. The Administration will work with the Finance-Payroll Department to review the highest 12-month salary of all active beneficiaries to ensure that retroactive lump sum payments were accurately spread, and if not, to inform Retirement Services of the new highest 12-month salary.

Recommendation #3: Going forward, correct the programming of higher class pay codes such that higher class pays are not pensioned. (Priority 3)

The Administration agrees with this recommendation. The Finance-Payroll Department verified historical treatment of higher class pay related to retirement earnings. Staff retrieved and analyzed information for calendar year 1998 that was extracted from archived historical data from the Legacy payroll system. Through this analysis, Finance determined that Higher Class pay paid in 1998 was included as a component of the eligible retirement earnings, and was also used in the basis of calculating retirement contribution deductions. Retirement staff verified the same earnings and contributions in the Pension Gold System.

The Administration will ensure that prospectively the Payroll system is programmed to categorize higher class pay codes as non-pensionable.

> **Recommendation #4: To the extent possible, correct pension payments and retirement contributions for the Police and Fire Retirement members and for the Federated Retirement members where higher class pay or management allowances were considered pensionable. (Priority 3)**

The Administration agrees with this recommendation. If corrections can be made, Finance-Payroll will have to recalculate retirement contributions and Retirement Services will need to review and calculate the highest 12-month salary using the information that is provided by Finance-Payroll. Retirement Services will need to partner with Finance Payroll to ensure that data that is needed is provided to accurately calculate pension payments.

Retirement Services will work with the City Attorney's Office to determine if adjustments to pensions can be made, if they had previously been calculated incorrectly.

> **Recommendation #5: Propose amendments to the Municipal Code to ensure that only pays that are specifically negotiated and defined as pensionable in the Municipal Code for the Police and Fire and Federated Retirement Plans are included in the pension calculations. (Priority 3)**

The Administration agrees with this recommendation. When special pays are negotiated, the Office of Employee Relations currently meets with the Departments of Finance, Information Technology and Human Resources to create and define any payroll codes that are necessary. In addition, if a special pay is pensionable, the Office of Employee Relations sends notification to the appropriate retirement board and the City Attorney's Office. An ordinance is subsequently prepared by the City Attorney's Office that would amend the San Jose Municipal Code, which is approved by the City Council. Coordination amongst these departments is essential to ensure proper implementation of negotiated items.

In the event any special pays are negotiated that are pensionable, the Office of Employee Relations will coordinate with all the departments listed above to ensure the appropriate steps are taken to ensure the payroll code is setup correctly and that the San Jose Municipal Code is amended as necessary.

> **Recommendation #6: Adjust the FLSA pension records for retirees and active employees as soon as possible and recalculate pension benefits for retired firefighters. (Priority 2)**

The Administration agrees with this recommendation, but notes that it would involve recalculating pension benefits and adjusting contributions as well. The City is currently in pending litigation with the San Jose Fire Fighters, Local 230 regarding FLSA premiums. While the settlement could include resolution on errors made in the past, it is the City's intent to correct any issues prospectively. The City Attorney's Office and the Office of Employee Relations are working closely on this pending litigation.

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Recommendation #7: Obtain authoritative documentation for time reporting codes and earning codes, and create written policies and procedures for proper application of all codes, and for regularly reviewing and maintaining an authoritative time/earning code mapping table. (Priority 3)

The Administration agrees with this recommendation. The Auditor's Office provided a list of all the payroll codes that were collected as part of this Audit. This includes a mapping of various payroll codes with reference to the source that justifies the payroll code.

A team consisting of staff from Human Resources, the Office of Employee Relations and Finance will continue to meet regularly. This will include the development of written policies and procedures for the use of time reporting codes and earnings codes and define a schedule for the periodic review of the Time/Earning codes. The procedures will also identify roles and responsibilities required for an on-going review process.

Recommendation #8: Conduct periodic reviews of all codes to cull duplicative or unused codes. (Priority 3)

The Administration agrees with this recommendation. As indicated in the response to Recommendation #6, a team consisting of staff from Human Resources, the Office of Employee Relations and Finance will define a schedule for the periodic review of the Time/Earning codes.

Recommendation #9: Correct past errors and review all codes to ensure that codes are only available for use to applicable work groups. (Priority 3)

The Administration agrees with this recommendation. Finance-Payroll will review the aforementioned error in reporting and determine if any misuse has caused on over payment to employees. If any overpayments have occurred, the employee(s) will be contacted and the City will seek to recover any over payments through the City's receivable system.

In addition, the Finance-Payroll will initiate a review to determine if there are other instances which payroll codes have been misused. If so, appropriate adjustments and follow-up will be made.

Recommendation #10: Perform periodic reviews of all codes to ensure they are being used correctly. And to the extent possible, correcting past misuse. For example, checking that codes with strict parameters for their use are used correctly, e.g. Cancer Screening Release Time, Unpaid Furlough Leave. (Priority 3)

The Administration agrees with this recommendation. The Auditor's Office provided a list of individuals in which there was a misuse of payroll codes. The Office of Employee

Relations will conduct further research and ensure corrections are made. This may include coordination with Finance-Payroll to recover any over payments through the City's receivable system.

Finance-Payroll will review the aforementioned error in reporting and take necessary steps in the payroll application to ensure these errors do not reoccur.

Recommendation #11: Conduct regular comprehensive training for timekeepers and supervisors on PeopleSoft, time reporting and earning codes, and any changes in Union negotiated pay or hours. (Priority 3)

The Administration agrees with this recommendation. Staff from Human Resources, Office of Employee Relations and Finance will incorporate training for timekeepers and supervisors that will include topics such as PeopleSoft, time reporting and earning codes, and new additions/changes to negotiated union contracts.

Recommendation #12: Provide timekeepers with written procedures and consider having them conduct the periodic monitoring of time codes. (Priority 3)

The Administration agrees with this recommendation. Finance-Payroll will develop written procedures for timekeepers to do more monitoring of the use of earning codes.

Recommendation #13: Consider amending the Municipal Code to calculate final compensation as the highest *base salary received*, with suitable exceptions. (Priority 3)

The Administration agrees with this recommendation. Retirement benefits are the most expensive benefits provided to employees. The City recognizes that this is a very important benefit that has significant cost implications, which is why we must ensure that the costs of retirement benefits are sustainable in the long-term.

Due to the significant cost to the City, the Administration will be exploring alternatives for creating sustainable retirement benefits. This will include the calculation of final compensation. Since pension benefits are often considered vested, there are limitations on what can be changed for current employees.

Recommendation #14: Consider amending the Municipal Code such that the Retirement Board shall credit a member with one year of federated city service for 2,080 hours of federated city service rendered by the member in any calendar year. (Priority 3)

The Administration agrees with this recommendation. As noted in Recommendation #12, the Administration will be exploring alternatives for creating sustainable retirement benefits. This will include crediting a member with one year of federated city service for

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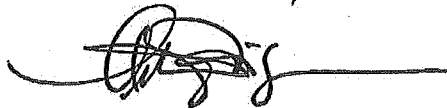
2,080 hours of federated city service. Since pension benefits are often considered vested, there are limitations on what can be changed for current employees.

Recommendation #15: Consider amending the Municipal Code to return to a three year average in calculating pension benefits in both Retirement Plans. Prior to July 1, 2001 for the Federated Plan and January 1, 1970 for the Police and Fire Plan, the City used a three year average in calculating pension benefits. (Priority 3)

The Administration agrees with this recommendation. As noted in Recommendation #12 and #13, the Administration will be exploring alternatives for creating sustainable retirement benefits. This will include consideration of a three year average when calculating pension benefits for both retirement plans. Since pension benefits are often considered vested, there are limitations on what can be changed for current employees.

Conclusion

The Audit has surfaced concerns and has made necessary recommendations that speak to the need for revising and improving our practices with respect to calculating pensionable earnings and time reporting. Proactive action will be taken to thoroughly address the above recommendations over the coming months. The Administration would like to thank the City Auditor's Office for the depth and thoroughness in conducting this audit.

Debra Figone
City Manager

APPENDIX A

DEFINITIONS OF PRIORITY 1, 2, AND 3
AUDIT RECOMMENDATIONS

The City of San Jose's City Policy Manual (6.1.2) defines the classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

Priority Class[1]	Description	Implementation Category	Implementation Action[3]
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.[2]	Priority	Immediate
2	A potential for incurring significant fiscal or equivalent fiscal or equivalent non-fiscal losses exists.[2]	Priority	Within 60 days
3	Operation or administrative process will be improved.	General	60 days to one year

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[1] The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

[2] For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of $50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of $100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its citizens.

[3] The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.

APPENDIX B: List of Time Reporting and Earning Codes

	Time Reporting Code	Earning Code	Description	Sufficient Procedures for all employee groups with access	Pensionable?
1	ACB	ACB	Add to Comp Time Balance	No	Not Pensionable
2	-	ADA	Administrative Assignment	No	Not Pensionable
3	ADM	ADM	Administrative Leave	Yes	Pensionable
4	-	ADV	Advance	No	Not Pensionable
5	-	AEP	Alternate Employment Pay	No	Not Pensionable
6	AT1	AT1	FF Anti-Terrorism Training Pay	Yes	Not Pensionable
7	AT3	AT3	ATT Management Pay	No	Not Pensionable
8	-	BIL	Conversion-Bilingual Pay	No	Not Pensionable
9	-	BL1	Bilingual Pay Full-Time	Yes	Not Pensionable
10	-	BL2	Bilingual Pay Part-Time	Yes	Not Pensionable
11	BL3	BL3	MEF Bilingual Pay PT Unbenefit	Yes	Not Pensionable
12	-	BLF	Oral Bilingual Pay - Full Time	Yes	Not Pensionable
13	-	BLP	Oral Bilingual Pay Part Time	Yes	Not Pensionable
14	BMB	BMB	Bomb Pay	Yes	Not Pensionable
15	-	BNS	Bonus Pay	No	Not Pensionable
16	-	CAR	$350.00 Automobile Allowance	Yes	Not Pensionable
17	CBA	CBA	Comp-Time Balance Adjustment	No	Not Pensionable
18	CC1 & CCJ	CC1	Call Back for Comp	Yes	Not Pensionable
19	-	CEL	Cell Phone Stipend - Non Taxbl	Yes	Not Pensionable
20	-	CET	Cellular Phone Stipend-Taxable	Yes	Not Pensionable
21	-	CIA	Catastrophic Illness S/L Adj	Yes	Not Pensionable
22	CLO	CLO	Holiday Closure	Yes	Not Pensionable
23	CM2 & CMJ & CMP	CMP	Overtime for Comp @ 1.0	No	Not Pensionable
24	COM	COM	Comp-Time Taken	Yes	Pensionable
25	CP1	CP1	Call Back for Pay @ 1.0	No	Not Pensionable
26	CPJ	CPJ	Call Back for Pay @ 1.5	No	Not Pensionable
27	CPO	CPO	Comp-Time Payoff - Police	No	Not Pensionable
28	-	CR0	CAR Allowance Prorated	Yes	Not Pensionable
29	-	CR2	$200 Automobile Allowance	Yes	Not Pensionable
30	-	CR6	$600 Automobile Allowance	Yes	Not Pensionable
31	CSR	CSR	Cancer Screening Release Time	Yes	Pensionable
32	CTP	CTP	Aged Comp-Time Paid	No	Not Pensionable
33	CTX	CTX	Comp Time Extended	No	Not Pensionable
34	-	DIL	Dental In Lieu-Standard	Yes	Not Pensionable
35	DIS	DIS	Disability Leave @ 100%	Yes	Pensionable

	Time Reporting Code	Earning Code	Description	Sufficient Procedures for all employee groups with access	Pensionable?
36	DOG	DOG	Canine Unit Premium	Yes	Not Pensionable
37	-	DPN	Data Plan Stipend - Non Taxbl	Yes	Not Pensionable
38	-	DPT	Data Plan Stipend - Taxable	Yes	Not Pensionable
39	DSE	DSE	Disability Leave @ 85 %	No	Pensionable
40	DSF	DSF	Fire Line Disability Earnings	No	Pensionable
41	DSH & CNVDC & CNVDR	DSH	Fire Line Disability Hours	No	Pensionable
42	DST	DST	Pol Data Speclist Training Pay	Yes	Not Pensionable
43	-	EDT	Education & Training Pay	No	Not Pensionable
44	EER	EER	Non Taxable Empl Exp Reimburse	No	Not Pensionable
45	-	EIL	Enhanced Dental In Lieu	no	Not Pensionable
46	-	EMT	Emergency Medical Technician	Yes	Pensionable
47	-	ENR	Employee NonTxbl Reimbursement	No	Not Pensionable
48	-	EPR	Equipment Purchase Reimbursmnt	No	Not Pensionable
49	-	ERC	Employee Recognition Award Adj	Yes	Not Pensionable
50	-	ESP	MEF CEO Svce Perfor Pilot Prog	Yes	Not Pensionable
51	-	EXA	Executive Leave Adjustment	No	Not Pensionable
52	EXE	EXE	Executive Leave	No	Pensionable
53	FCO	FCO	FMLA Comp-Time Taken	No	Pensionable
54	-	FCT	FLSA Comp Time	No	Not Pensionable
55	-	FEI	Fire Education Incentive	No	Not Pensionable
56	FEX	FEX	FMLA Executive Leave	No	Pensionable
57	-	FFL	FLSA OT Adjustment - Fire	Yes	Pensionable
58	FIT	FIT	Fitness Programs	Yes	Pensionable
59	-	FLR	FLSA - Fire Pensionable	Yes	Pensionable
60	-	FLS	FLSA Overtime Adjustment	No	Not Pensionable
61	FLT	FLT	FMLA Lost Time	No	Not Pensionable
62	FNL	FNL	Funeral Leave	Yes	Pensionable
63	FPE	FPE	FMLA Personal Leave	No	Pensionable
64	FSI	FSI	FMLA Sick Leave	No	Pensionable
65	FVA	FVA	FMLA Vacation Leave	No	Pensionable
66	-	GNT	Misc. Earnings - Non Taxable	No	Not Pensionable
67	HCL	HCL	Higher Class Pay	No	Pensionable
68	HIL	HIL	Holiday In-Lieu Pay	No	Pensionable
69	-	HLF	Health In Lieu-Family	Yes	Not Pensionable
70	-	HLS	Health In Lieu-Single	Yes	Not Pensionable

	Time Reporting Code	Earning Code	Description	Sufficient Procedures for all employee groups with access	Pensionable?
71	HOL	HOL	Holiday Leave	Yes	Pensionable
72	-	HPD	Health & Personal Development	No	Not Pensionable
73	-	HRA	Human Resources Account	No	Not Pensionable
74	-	HSC	Step Increase Hours	No	Not Pensionable
75	HTP	HTP	Hazard Incidents Team (Relief)	Yes	Not Pensionable
76	-	HTR	Hazardous Incidents Team (Reg)	Yes	Not Pensionable
77	JUR	JUR	Jury Duty	No	Pensionable
78	LBP	LBP	Vacation Balance Payoff	No	Not Pensionable
79	-	LIC	Class A/B License Pay	Yes	Not Pensionable
80	CNVLC & CNVLR & LST	LST	Lost Time	No	Not Pensionable
81	M05	M05	Mngmt Performance Pay - 1/2 %	No	Pensionable
82	M10	M10	Mngmt Performance Pay - 1.0 %	No	Pensionable
83	M15	M15	Mngmt Performance Pay - 1.5 %	No	Pensionable
84	M20	M20	Mngmt Performance Pay - 2.0 %	No	Pensionable
85	M21	M21	Mngmt Performance Pay - 2.1%	No	Pensionable
86	M25	M25	Mngmt Performance Pay - 2.5 %	No	Pensionable
87	M30	M30	Mngmt Performance Pay - 3.0 %	No	Pensionable
88	M35	M35	Mngmt Performance Pay - 3.5 %	No	Pensionable
89	M40	M40	Mngmt Performance Pay - 4.0 %	No	Pensionable
90	M45	M45	Mngmt Performance Pay - 4.5 %	No	Pensionable
91	M50	M50	Mngmt Performance Pay - 5.0 %	No	Pensionable
92	MAA	MAA	Management Allowance 5%	No	Pensionable
93	MAB	MAB	Management Allowance 7.5%	No	Pensionable
94	MAC	MAC	Management Allowance 10%	No	Pensionable
95	MAD	MAD	Management Allowance 12.5%	No	Pensionable
96	MAE	MAE	Management Allowance 15%	No	Pensionable
97	MAF	MAF	Management Allowance 17.5%	No	Pensionable
98	MAG	MAG	Management Allowance 5.2%	No	Pensionable
99	MAH	MAH	Management Allowance 6.0%	No	Pensionable
100	MAI	MAI	Management Allowance 7%	No	Pensionable
101	MAJ	MAJ	Management Allowance 8.71%	No	Pensionable
102	MAK	MAK	Management Allowance Special	No	Pensionable
103	-	MAL	Management Allowance + HIL	No	Pensionable
104	MAM	MAM	Management Allowance 2.5%	No	Pensionable
105	-	MD9	City Paid Deferred Comp - 9%	No	Not Pensionable
106	-	MDC	City Paid Deferred Comp	No	Not Pensionable
107	-	MEC	Brake, Lamp and Smog Certifica	No	Not Pensionable
108	-	MER	Merit Pay - Pensionable	No	Pensionable

Time Reporting Code	Earning Code	Description	Sufficient Procedures for all employee groups with access	Pensionable?
109	-	MFR	Mngmt Perform Pay-Fixed Rate	No	Pensionable
110	MGE	MGE	MERGE Unit Pay	Yes	Not Pensionable
111	MLA	MLA	Meal Allowance	No	Not Pensionable
112	MLN	MLN	Military Leave Non Taxable	No	Not Pensionable
113	MIL	MLT	Military Leave	Yes	Pensionable
114	-	MO1	Moving Expenses(Box 1-Taxable)	No	Not Pensionable
115	-	MO2	Moving Expense(Box 13-Nontax)	No	Not Pensionable
116	-	MO3	Moving Exp(Adj-Box 13-Nontax)	No	Not Pensionable
117	-	MOV	Moving Exp(Adj-Box 1-Taxable)	No	Not Pensionable
118	MPA	MPA	Military Pay Adjustments	Yes	Not Pensionable
119	MLE	MR1	Mileage 1 - Non Taxable	Yes	Not Pensionable
120	MRT	MRT	Mileage - Taxable	No	Not Pensionable
121	-	MSC	Miscellaneous Earnings-Taxable	No	Not Pensionable
122	-	MSP	Military Supplementl 1099-MISC	No	Not Pensionable
123	-	MSV	City Paid 401(a) Plan	No	Not Pensionable
124	MTR	MTR	Motorcycle Duty Pay	Yes	Not Pensionable
125	N01	N01	Bi-weekly Notary Pay	Yes	Not Pensionable
126	-	NOT	Notary Fee	Yes	Not Pensionable
127	-	NTP	Non-Txbl Professnl Development	No	Not Pensionable
128	OHR	OHR	Other hours - Back pay	No	Pensionable
129	-	OPL	Conversion-Other Paid Leaves	No	Not Pensionable
130	-	OTH	Conversion-Other Earnings	No	Not Pensionable
131	OVI	OV1	Overtime for Pay @ 1.0	No	Not Pensionable
132	OV2	OV2	Overtime for Pay @ 2.0	Yes	Not Pensionable
133	CVTOR	OVC	Overtime Conversion Fire @ 1.5	No	Not Pensionable
134	CNVOC	OVT	Overtime for Pay @ 1.5	No	Not Pensionable
135	-	OWF	Oral/Written Bilingual F/T	Yes	Not Pensionable
136	-	OWP	Oral/Written Bilingual P/T	Yes	Not Pensionable
137	PAI	PA1	MEF Prof Achievement Incentive	Yes	Not Pensionable
138	PA2	PA2	AEA Prof Achievement Incentive	No	Not Pensionable
139	-	PAR	Paramedic Pay (Regular)	Yes	Not Pensionable
140	PAY	PAY	PAY Earnings Aggregate	Yes	Not Pensionable
141	PCT	PCT	Comp-Time Payoff	No	Not Pensionable
142	-	PDP	Professional Development	No	Not Pensionable
143	PER	PER	Personal Leave	No	Not Pensionable
144	-	PGA	Protective Gear Allowance	Yes	Not Pensionable
145	-	PIP	Paramedic Intern Preceptor	No	Not Pensionable
146	-	PLA	Personal Leave Bal Adjustment	No	Not Pensionable

Time Reporting Code	Earning Code	Description	Sufficient Procedures for all employee groups with access	Pensionable?
147	-	PN9	PDP Unit 99 Non Taxable	No	Not Pensionable
148	PPA	PPA	POST Pay Advanced	Yes	Pensionable
149	PPI	PPI	POST Pay Intermediate	Yes	Pensionable
150	-	PRB	Probationary Hours	No	Not Pensionable
151	-	PRN	Paramedic - Support (5%)	Yes	Not Pensionable
152	-	PRS	Paramedic Pay - Support (8%)	Yes	Not Pensionable
153	-	R01	Retroactive Pay/PTC	No	Not Pensionable
154	-	RCG	Employee Recognition Award	No	Not Pensionable
155	-	RCN	Retirement Cell Phone Non Txbl	No	Not Pensionable
156	-	RCT	Retirement Cell Phone Taxable	No	Not Pensionable
157	CNVRC & CNVRR & REG & TST	REG	Regular	No	Pensionable
158	-	RET	Retirement Hours	No	Pensionable
159	-	RFD	Refund	No	Not Pensionable
160	RG2	RG2	Regular Time > 40 Hrs per week	No	Not Pensionable
161	-	RIP	Referral Incentive Payment	No	Not Pensionable
162	-	RNT	Interim Housing Allowance	No	Not Pensionable
163	-	RTM	ACH Returned Items	No	Not Pensionable
164	-	RTN	Retro Pay/Non-Pensionable	No	Not Pensionable
165	-	RTO	Retro Pay/Overtime	No	Not Pensionable
166	-	RTR	Retroactive Pay/Pensionable	No	Pensionable
167	RWW	RWW	Reduced Work Week Hours	Yes	Not Pensionable
168	-	SAW	Employee Suggestion Award	Yes	Not Pensionable
169	SCJ & SC1	SC1	Standby for Comp	No	Not Pensionable
170	SCB	SCB	Subtract from Com Time Balance	No	Not Pensionable
171	-	SEV	Severance Pay	No	Not Pensionable
172	SH2	SH2	Shift Premium $1.50	Yes	Not Pensionable
173	SH3	SH3	IBEW Shift Premium - $1.55	Yes	Not Pensionable
174	SH4	SH4	IBEW Graveyrd Shift Prem $1.75	Yes	Not Pensionable
175	SHF	SHF	Shift Premium $1.20	No	Not Pensionable
176	SHG	SHG	Shift Dfferenti Graveyd $1.75	Yes	Not Pensionable
177	-	SHH	Conversion-Shorthand/Hit/Bldg	No	Not Pensionable
178	-	SHN	Shorthand Pay	No	Not Pensionable
179	-	SHP	Shorthand Premium $25.00	No	Not Pensionable
180	SHR	SHR	Graveyard Shift Premium - $1.6	No	Not Pensionable
181	SHW	SHW	Shift Premium - $1.40	No	Not Pensionable

	Time Reporting Code	Earning Code	Description	Sufficient Procedures for all employee groups with access	Pensionable?
182	CNVSC & CNVSR & SIC			No	Pensionable
	SIC	SIC	Sick Leave		
183	-	SKA	Sick Leave Accrual Adjustment	Yes	Not Pensionable
184	SLP	SLP	Sick Leave Balance Payoff	Yes	Not Pensionable
185	SP1	SP1	Standby for Pay @ 1.0	Yes	Not Pensionable
186	SPJ	SPJ	Standby for Pay @ 1.5	No	Not Pensionable
187	-	SPR	Stop Payment Replacement	No	Not Pensionable
188	-	SU2	Suspension - POA and IAFF	No	Pensionable
189	-	SUG	Suggestion Award (adj)	Yes	Not Pensionable
190	-	SUP	Conversion-Spec Unit Premium	No	Not Pensionable
191	SUS	SUS	Suspension	Yes	Not Pensionable
192	-	SVA	Service Hours Adjustment	No	Not Pensionable
193	-	SVC	Service Hours	No	Not Pensionable
194	TAV1	T01	Travel Advance - In State	Yes	Not Pensionable
195	TAV2	T02	Travel Advance - Out of State	Yes	Not Pensionable
196	TAV3	T03	Travel Advance - Local	Yes	Not Pensionable
197	-	TGA	Taxable Gross Adjustment	No	Not Pensionable
198	-	TN4	Travl Exp Non Txbl Out State	No	Not Pensionable
199	-	TPA	TPAC Stipend - Adj	No	Not Pensionable
200	-	TPC	TPAC Stipend	No	Not Pensionable
201	TRV1	TR1	NonTaxbl Travl Exp Reimb In ST	Yes	Not Pensionable
202	TRV2	TR2	NonTaxbl Travl Exp Reimb OutST	Yes	Not Pensionable
203	TRV3	TR3	NonTaxbl Travl Exp Reim Local	Yes	Not Pensionable
204	TRV4	TR4	Non Taxable Employee Training	Yes	Not Pensionable
205	-	TR5	Taxable Travel Reimbursement	No	Not Pensionable
206	THD	TRD	Dispatchers Training Pay	Yes	Not Pensionable
207	TRN	TRN	Police Field Training Pay	Yes	Not Pensionable
208	TRV	TRV	Travel Expenses Taxable (Adj)	No	Not Pensionable
209	-	TTR	Taxable Tuition Reimbursement	No	Not Pensionable
210	-	TUI	Tuition Reimbursement - Nontax	No	Not Pensionable
211	-	UAA	Uniform Allowance Accrual	No	Not Pensionable
212	UAB	UAB	Uniform Allowance Bi-Weekly	Yes	Not Pensionable
213	-	UAD	Uniform Allowance Advance	No	Not Pensionable
214	-	UAP	Uniform Allowance Payment	Yes	Not Pensionable
215	UER	UER	Uniform / Equipment Replacemnt	Yes	Not Pensionable
216	UFL	UFL	Unpaid Furlough Leaves	Yes	Not Pensionable
217	UMB	UMB	Unpaid Benefited Military Leav	Yes	Not Pensionable

Time Reporting Code	Earning Code	Description	Sufficient Procedures for all employee groups with access	Pensionable?
218	UML	UML	Inactive Duty Military Leave	Yes	Not Pensionable
219	UPA	UPA	Unpaid Administrative Leave	No	Not Pensionable
220	UPM	UPM	Unpaid Military Leave	Yes	Pensionable
221	-	URP	Uniform Replacement (adj)	No	Not Pensionable
222	USP	USP	Urban Search & Rescue (Relief)	Yes	Not Pensionable
223	-	USR	Urban Search & Rescue (Reg)	Yes	Not Pensionable
224	CNVVC & CNVVR & VAC			No	Pensionable
		VAC	Vacation Leave		
225	-	VAJ	Vacation Accrual Adjustment	No	Not Pensionable
226	-	VEH	Imputed Vehicle Usage (Adj)	No	Not Pensionable
227	VSB	VSB	Vacation Sellback	Yes	Not Pensionable
228	-	WCC	Worker's Comp Txbl Income Cr	Yes	Not Pensionable
229	-	WCO	Worker's Compensation Offset	Yes	Not Pensionable
230	WIT	WIT	Witness Leave	Yes	Pensionable
231	XCP	XCP	Excess Comp Time Payout	No	Not Pensionable
232	XPY	XPY	For Fire Line Use Only	No	Not Pensionable
233	-	ZZZ	Time & Labor Earnings Code	No	Not Pensionable